

Message Text

CONFIDENTIAL

PAGE 01 LONDON 19694 01 OF 02 071208Z

12

ACTION SS-14

INFO OCT-01 ISO-00 EUR-08 EB-03 SP-02 TRSE-00 NSC-05

NSCE-00 SSO-00 FRB-01 CIAE-00 ONY-00 /034 W

----- 026668

O 080157Z DEC 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8487

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 19694

LIMDIS WITH DISTRIBUTION FOR S, C, D, E, P, EB, EUR,
S/P, TREASURY, NSC, FRB ONLY

E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: SITUATION REPORT, DECEMBER 7

REF: (A) STATE 267168; (B) LONDON 19622

1. IMF LOAN CONDITIONS: FINANCIAL TIMES AND TIMES
REPORT THAT THE CABINET IS UNDECIDED ON HOW THE SPENDING
CUTS SHOULD FALL AND THAT NO DECISIONS WERE REACHED AT
MONDAY AFTERNOON'S CABINET SESSION WHICH WAS ATTENDED BY
MR. JOEL BARNETT, MP, CHIEF SECRETARY IN THE TREASURY
WHO IS IN CHARGE OF PUBLIC SPENDING. THE FT ARTICLE
POINTS OUT THAT WHILE THE CABINET'S GENERAL AGREEMENT AT
THE END OF LAST WEEK ON A 2 BILLION POUND REDUCTION IN
PSBR IN 1977-78 WAS BEING PRESENTED BY SOME MODERATE
OPPONENTS OF DEFLATION AS A COMPROMISE, THE BROAD
ORDERS OF MAGNITUDE DO NOT DIFFER SIGNIFICANTLY FROM
THOSE INDICATED TWO WEEKS AGO BY THE CHANCELLOR. DETAILS
OF THE PACKAGE ARE REPORTEDLY FAR FROM SETTLED, WITH
OPPOSITION FROM ANTHONY WEDGWOOD BENN, ENERGY SECRETARY
TO THE PROPOSED SALE OF PART OF THE GOVERNMENT'S HOLD-
INGS IN BRITISH PETROLEUM.

2. IN THE COMMONS, ROBERT SHELDON, MP, HINTED THAT VAT
WOULD NOT BE INCREASED IN THE IMMEDIATE FUTURE, NOTING
THE IMPACT ON THE COST OF LIVING AND RETAIL PRICE INDEX
OF AN INCREASE IN VAT. HE UNDERLINED THE GOVERNMENT'S
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 19694 01 OF 02 071208Z

INTENTION TO MAKE THE NECESSARY ECONOMIC ADJUSTMENTS OVER

STAGES. "THE REDUCTION IN PSBR WILL HAVE TO BE ACHIEVED OVER A PERIOD BY A COMBINATION OF PUBLIC EXPENDITURE AND TAXATION CHARGES. THE STRUCTURAL CHANGES WILL NOT BE THE RESULT OF ONE BUDGET OR ONE PACKAGE BUT A SERIES OF CHANGES AT DIFFERENT TIMES."

3. THE TRIBUNE GROUP OF LEFT-WING MPS WARNED THE GOVERNMENT THAT IT COULD NOT RELY ON THEIR SUPPORT IF ANY FURTHER CUTS IN PUBLIC EXPENDITURE ON SOCIAL PROGRAM AND INDUSTRIAL DEVELOPMENT WERE AGREED TO BY THE CABINET. (THEY ALSO EXPRESSED TOTAL OPPOSITION TO ANY SALE OF PUBLICLY-OWNED ASSETS SUCH AS BRITISH PETROLEUM SHARES.) ABOUT 30 OF THE GROUP'S 70-ODD MEMBERS ATTENDED THE MEETING. ONE LEADING TRIBUNITE HAS TOLD AN EMBASSY OFFICER THAT THE GROUP HAS NOT YET SELECTED A TIME TO WITHHOLD ITS VOTES FROM THE GOVERNMENT AND WILL CHOOSE AN ISSUE WHICH DOES NOT INVOLVE CONFIDENCE. THERE IS ALSO A QUESTION AS TO HOW MANY TRIBUNE MPS ACTUALLY SUPPORT THE PLAN. SHOULD THE TRIBUNITES CARRY IT OUT AND THE GOVERNMENT BE DEFEATED, THE GOVERNMENT WOULD PROBABLY RESPOND AS IT HAS IN THE PAST BY INTRODUCING ITS OWN CONFIDENCE MOTION WHICH WOULD PROBABLY CARRY BY A COMFORTABLE MARGIN. THE TRIBUNE GROUP'S ACTION, ACCORDINGLY, DOES NOT REPRESENT A SERIOUS THREAT TO THE CALLAGHAN GOVERNMENT. AS THE LEFT-WING SEES IT, LIMITED PUBLIC SPENDING CUTS FROM A LABOR GOVERNMENT, WHILE NOXIOUS, ARE STILL INFINITELY PREFERABLE TO THE DEEP CUTS THAT IT WOULD EXPECT FROM A CONSERVATIVE GOVERNMENT HEADED BY MRS. THATCHER.

4. ECONOMIC INDICATORS: WHOLESAL PRICES. THE SLIGHT FIRMING OF STERLING IN NOVEMBER CUT THE RATE OF INCREASE IN WHOLESAL PRICES PAID BY INDUSTRY FOR RAW MATERIALS AND FUELS TO 1.25 PERCENT FROM THE OCTOBER INCREASE OF 4.5 PERCENT. YET THIS INDEX IS NOW 29.3 PERCENT ABOVE ITS LEVEL OF A YEAR AGO. WHOLESAL PRICES OF FINISHED GOODS ROSE 1.7 PERCENT IN NOVEMBER AND STAND 17.5 PERCENT HIGHER THAN IN NOVEMBER 1975. BOTH INDICES REFLECT THE SHARP DECLINE IN STERLING THAT HAS OCCURRED THIS YEAR.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 19694 01 OF 02 071208Z

INSTALLMENT BUYING. BRITISH CONSUMERS STEPPED UP THE PACE OF INSTALLMENT BUYING DURING THE AUGUST-OCTOBER PERIOD. IN THE FACE OF STEEPLY RISING INTEREST RATES, THIS BEHAVIOR IS MOST LIKELY DUE TO PRECAUTIONARY PURCHASES IN ANTICIPATION OF RUMORUMORED INCREASES IN THE VALUE ADDED TAX. THE OCTOBER RISE OF 54 MILLION

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 19694 02 OF 02 071210Z

22

ACTION SS-14

INFO OCT-01 EUR-08 ISO-00 EB-03 SP-02 TRSE-00 NSC-05

NSCE-00 FRB-01 SSO-00 CIAE-00 ONY-00 /034 W

----- 026685

O 080157Z DEC 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8488

C O N F I D E N T I A L SECTION 02 OF 02 LONDON 19694

LIMDIS WITH DISTRIBUTION FOR S, C, D, E, P, EB, EUR,
S/P, TREASURY, NSC, FRB ONLY
POUNDS IN OUTSTANDING CONSUMER DEBT IS THE LARGEST
MONTHLY INCREASE IN 1976 AND CAN BE READ AS AN ACCELE-
RATION OF SUCH PRECAUTIONARY BUYING.

RETAIL SALES VOLUME. WITHOUT THE FILLIP OF THE
SUMMER TOURIST INFLUX, RETAIL SALES VOLUME DECLINED BY
1.4 PERCENT IN OCTOBER. SALES VOLUME HAS INCREASED BY
2.4 PERCENT OVER THE LAST 12 MONTHS, ALTHOUGH IT IS STILL
BELOW MID-1975 LEVELS. ANECDOTAL EVIDENCE POINTS TO
HIGHER SALES VOLUME IN NOVEMBER AND DECEMBER FOR THE
REASONS OUTLINED ABOVE.

5. YESTERDAY'S AGREEMENT BY THE GOVERNMENT TO THE
TUC'S REQUEST TO TAKE ANOTHER LOOK AT A WEALTH TAX
(LONDON 19672) IS THE QUID PRO QUO FOR TUC ACQUIESCENCE
TO THE GOVERNMENT'S FORTHCOMING AUSTERITY PACKAGE, IN-
CLUDING EXPENDITURE CUTS. THE GOVERNMENT AGREED AT
YESTERDAY'S TUC-LABOR PARTY LIAISON COMMITTEE (REFTEL)
TO THE SETTING UP OF A JOINT WORKING PARTY, WHICH WILL
INCLUDE TWO TUC GENERAL COUNCIL MEMBERS, TWO FROM THE
LABOR PARTY NEC, TWO MINISTERS AND TWO LABOR PARTY MP'S.
THE COMMITTEE WILL EXPLORE WAYS OF IMPLEMENTING A WEALTH
TAX "HOPEFULLY", AS MURRAY SAID YESTERDAY, "WITHIN THE
LIFE OF THE PRESENT GOVERNMENT." THERE IS VERY LITTLE
LIKELIHOOD THAT THE WEALTH TAX CAN BE PLACED ON THE
AGENDA OF THE PARLIAMENT THIS SESSION AND ONE KNOWLEDGE-
ABLE JOURNALIST (PAUL ROUTLEDGE, LABOR EDITOR, "TIMES",

DECEMBER 7) SAID: "IT IS DIFFICULT TO SEE YESTERDAY'S
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 19694 02 OF 02 071210Z

COMMITMENT TO A WORKING PARTY AS ANYTHING OTHER THAN A
SOP TO UNION OPINION."

WHETHER THE WEALTH TAX HAS A "NEAR FUTURE" OR NOT,
IT IS CLEAR FROM OUR TALKS WITH TUC OFFICIALS THAT THE
TRADE UNIONS NEED TO OFFER THEIR MEMBERS SOMETHING NEW
TO OFFSET THE BITTER MEDICINE OF THE GOVERNMENT'S AUSTER-
ITY PACKAGE. HOWEVER, IF THE TRADE UNIONS APPEAR READY
TO BOW TO OVERWHELMING ECONOMIC NECESSITY, SOME OF THE
LABOR PARTY MEMBERS OF THE LIAISON COMMITTEE, ESPECIALLY
BARBARA CASTLE AND NORMAN ATKINSON, WERE SHARPLY CRITICAL
OF THE GOVERNMENT'S PLAN FOR CUTS.

6. FOREIGN EXCHANGE AND FINANCE. THE GILT MARKET
STRENGTHENED AFTER THE ANNOUNCEMENT THAT THE CURRENT
LONG-TERM GOVERNMENT TAP STOCK HAD BEEN SOLD OUT.
GAINS OF UP TO 5/8 WERE RECORDED AND OVERALL VOLUME WAS
THE BEST FOR TWO WEEKS.

THE F.T. INDEX OF 30 INDUSTRIALS ROSE 4.8 TO CLOSE
AT 310.1 ON RELATIVELY THIN DEALINGS.

DAY-TO-DAY CREDIT WAS IN SHORT SUPPLY WITH THE BANK
OF ENGLAND SUPPLYING LARGE ASSISTANCE TO THE DISCOUNT
HOUSES.

STERLING CLOSED AT \$1.6570 MONDAY, A DROP OF \$0.0060,
IN SYMPATHY WITH THE WEAKER DOLLAR. THE TRADE-WEIGHTED
DEPRECIATION WIDENED TO 45.4 FROM 45.0 PERCENT. THE
POUND OPENED TODAY AT \$1.6550.

ARMSTRONG

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY, POLITICAL SITUATION, CURRENCY CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 DEC 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON19694
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760451-0742
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761263/aaaacbxl.tel
Line Count: 208
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY
Reference: 76 STATE 267168, 76 LONDON 19622
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAR 2004 by morefirh>; APPROVED <13 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SITUATION REPORT, DECEMBER 7
TAGS: EFIN, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006